



Wireless Universal Service

October 2006

elltel



Discussion Points

1. Background
 - Alltel
 - USF and ETC
2. Support for CETCs Furthers The Goals of Universal Service
3. USF: Wireless Carriers Are the Largest Contributors
4. CETCs Preserve and Advance Universal Service
5. Distributing USFs To CETCs
6. Conclusion



Background: Alltel

- Today, Alltel is a wireless-only carrier that provides service in 35 states.
 - In July 2006, Alltel spun-off its wireline local exchange business in 15 states, which was combined with Valor to form Windstream.
- Prior to the spin:
 - Alltel Wireline had 2.7M customers in 15 states and was an ETC throughout its service area and was eligible to receive approximately \$95M in federal USF support and approximately \$42M in state USF support.
- Alltel Wireless currently serves some of the most rural, sparsely-populated areas of the U.S.
 - Alltel has the largest wireless network in the U.S. in terms of geography served, but is the fifth largest wireless carrier in terms of total number of customers due to the population density of Alltel's service area.
 - Alltel Wireless has more than 11M customers in 35 states and is an ETC in 26 states, but not throughout its service area.
 - The challenge for Alltel and any rural carrier – wireline or wireless – is constructing and operating a network in high-cost areas.
 - USF support provides the necessary funds that enables communication service to be available in rural, high-cost areas.



Background: USF and ETC

- Prior to 1996, only ILECs were eligible for USF support, resulting in minimum wireless build-out in rural areas.
- 1996 Act requires:
 - Designation of carriers – competitive or incumbent – as ETCs for purposes of federal universal service support [Section 214(e)].
 - Establishment of an explicit and sufficient funding mechanism for all ETCs [Section 254(b)].
- FCC rules require:
 - Competitive and technological neutrality
 - Portability of USF support
- Court decisions require:
 - Portability of support levels (Alenco)
 - Non-discrimination between eligible carriers (Alenco)
- State and FCC ETC designations:
 - The FCC and 44 states have determined the public interest is served by designating wireless carriers as eligible for USF support.



Background: USF Support Mechanisms

USF support mechanisms consist of the following:

1. Explicit federal funds

Fund Size 2005

▪ High-cost loop (HCL)	\$1,238,425,000
▪ Safety net additive	
▪ Safety Value	
▪ High-cost model (HCM)	\$291,840,000
▪ Local switching (LSS)	\$424,795,000
▪ Interstate common line (ICLS)	\$1,178,126,000
▪ Interstate Access Service (IAS)	<u>\$691,000,000</u>
▪ Total high-cost USFs	\$3,824,186,000
▪ Low-income fund	\$808,565,000
▪ Schools & Library fund	\$1,861,745,000
▪ Rural health care fund	\$25,570,000

2. Explicit state funds

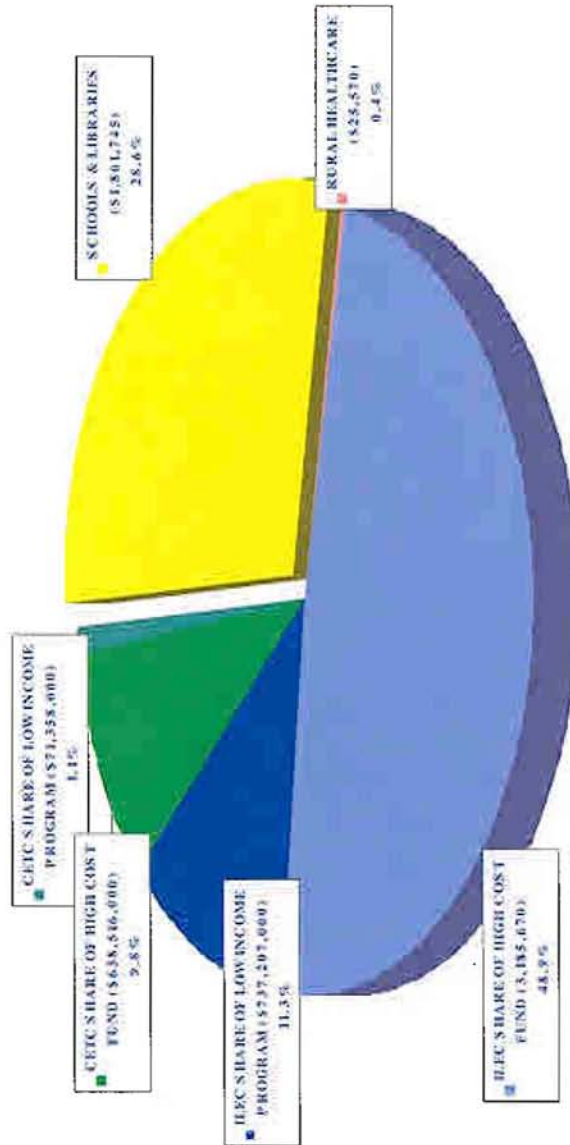
- Typically limited to ILECs

3. Implicit USF support

- Access charges available only to ILECs
 - Some states, like SD, with 14 cent intrastate access charges

Background: USF Support Mechanisms

2005 FEDERAL UNIVERSAL SERVICE FUND DISBURSEMENTS





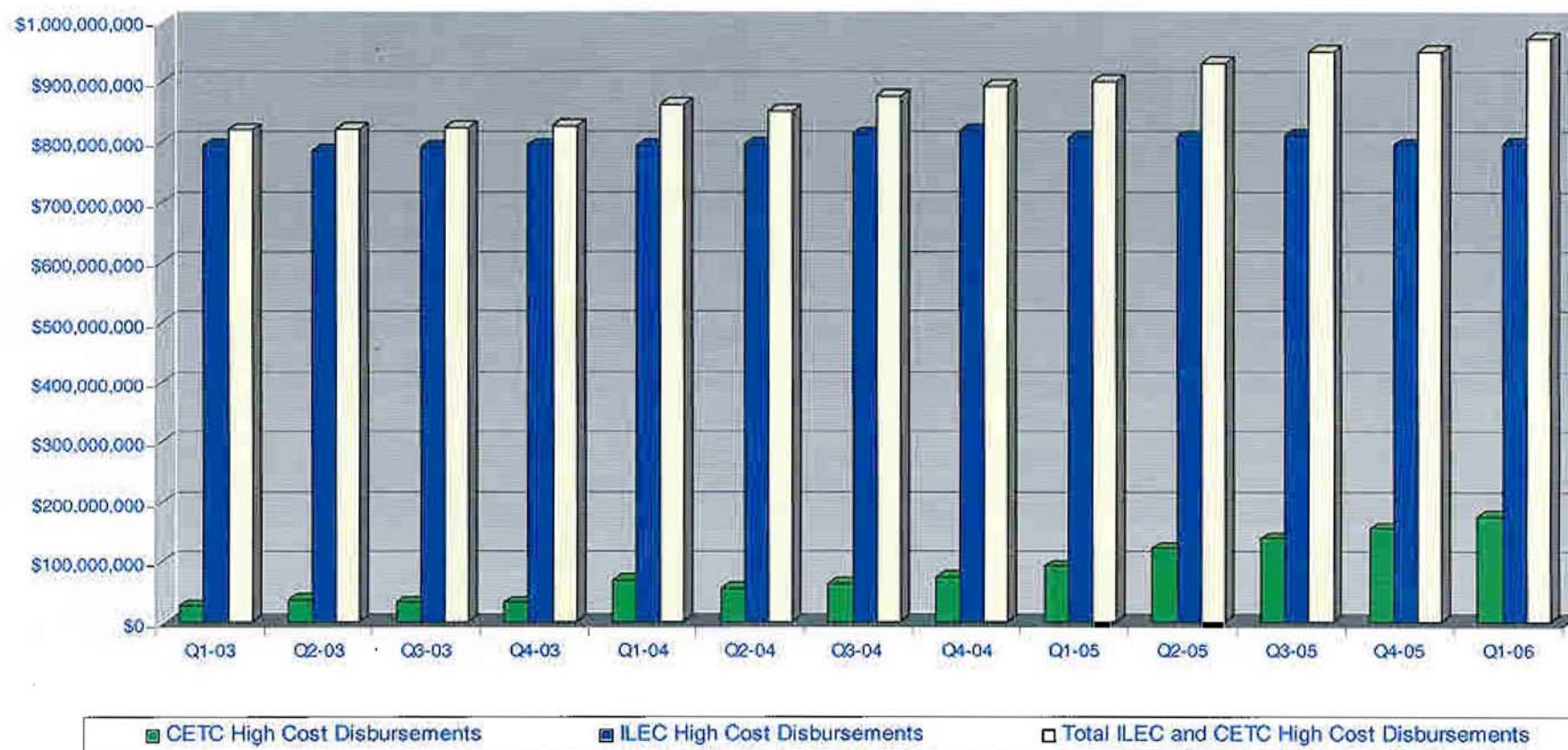
Support for CETCs Furthers The Goals of Universal Service

- How: by making support portable to carriers serving rural areas, consumers are realizing the benefits envisioned by Congress, the FCC, and state commissions in establishing a competitive universal service system that is consumer-focused.
 - 44 states have concluded that the public interest is served by designating wireless carriers as ETCs
 - An increasing number of consumers (approximately 10%) have cut-the-cord and rely on wireless service for their basic, advanced, and emergency communications needs
 - Previously unserved rural areas now have access to wireless service
 - Consumers in rural areas have access to communications service that meets their evolving needs
 - A reliable wireless service network is necessary for national security and public safety needs
 - Following Katrina, wireless carriers were asked by the FCC to participate in the universal service program (if not already participating) to address the communications needs of individuals and rescue personnel
 - Alltel provided free service to many consumers displaced by Katrina and has spent millions on network improvements



Support for CETCs Furthers The Goals of Universal Service

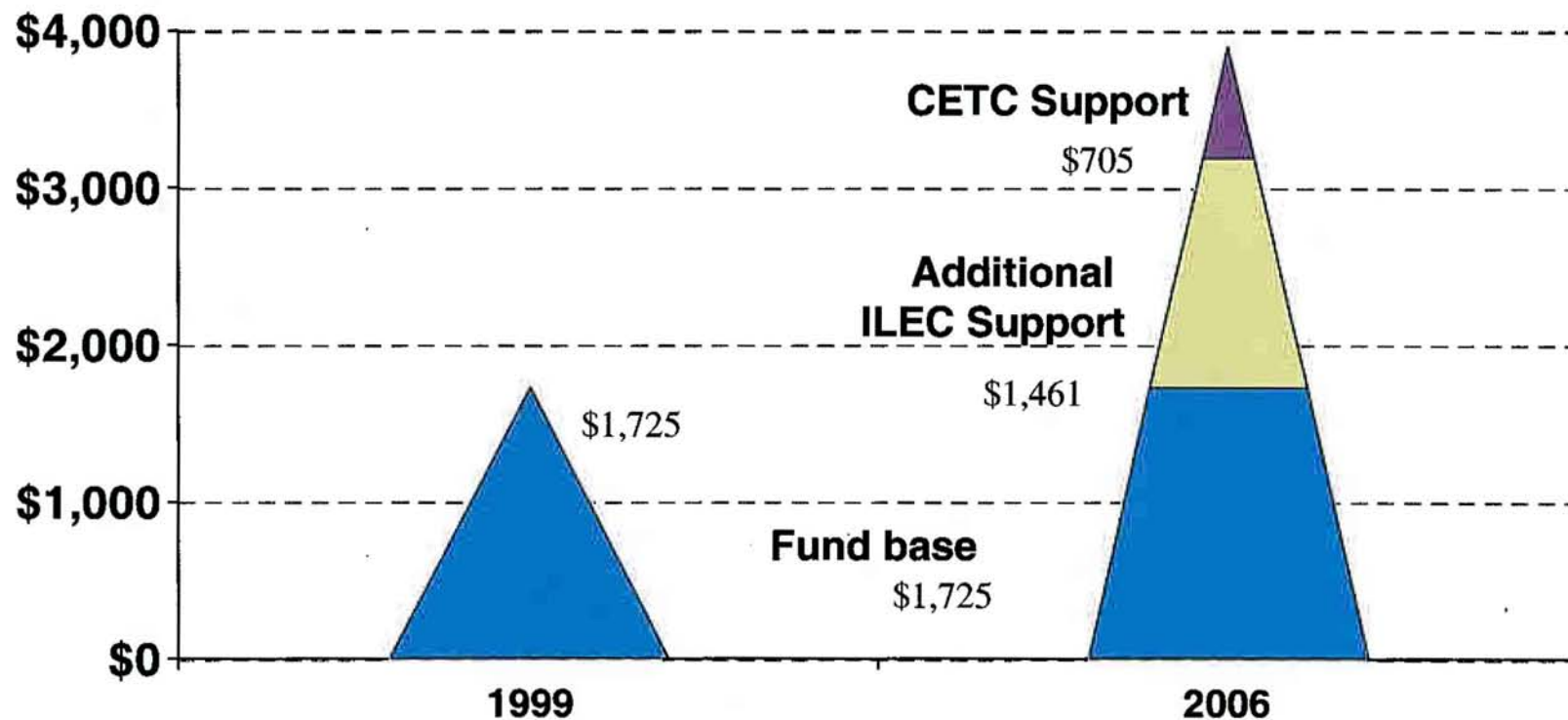
Comparison of ILEC and CETC High-Cost USF Distributions





Support for CETCs Furthers The Goals of Universal Service

In Millions



* CETCs are responsible for only 1/3 of the growth of the USF since 1999.



USF: Wireless Carriers Are the Largest Contributors

USF Support for CETCs Preserves and Advances Universal Service by:

- Allowing the largest contributor to the USF to use USF support to meet consumer needs
- Introducing the benefits of competition in rural areas by making support portable to carriers serving consumers' needs
- Point: Wireless contributions are increasing at a high rate than wireless distributions
 - *USF Distributions differential 2003 to 2005: \$512,000,000**
 - *USF Contributions differential 2003 to 2005: \$900,000,000***

* \$126,000,000 in 2003 to \$638,616,000 in 2005

** \$1,400,000,000 in 2003 to \$2,300,000,000 in 2005